

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Interstate 35 Community School District
Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Board of Education (Before September 2005 Election)		
Bill Seibert	President	2005
Bret Smith	Vice President	2006
Bruce McCuddin	Board Member	2006
Charles Walters	Board Member	2007
Leah Gray	Board Member	2007
Board of Education (After September 2005 Election)		
Bret Smith	President	2006
Leah Gray	Vice President	2007
Bruce McCuddin	Board Member	2006
Charles Walters	Board Member	2007
Ken Stanley	Board Member	2008
School Officials		
Bill Maske	Superintendent	2006
Lisa Brown	District Secretary	2006
Ahlers and Cooney, P.C.	Attorney	2006

NOLTE, CORNMAN & JOHNSON P.C.

Certified Public Accountants

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of the
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District, Truro, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Interstate 35 Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated August 15, 2006 on our consideration of the Interstate 35 Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Interstate 35 Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (none of which are presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


NOLTE, CORNMAN & JOHNSON, P.C.

August 15, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Interstate 35 Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$5,858,622 in fiscal 2005 to \$6,295,997 in fiscal 2006, while General Fund expenditures increased from \$5,951,129 in fiscal 2005 to \$5,979,251 in fiscal 2006. This resulted in an increase in the District's General Fund balance from a deficit \$191,030 in fiscal 2005 to a balance of \$125,716 in fiscal 2006, a \$316,746 increase from the prior year.
- An increase in interest rates during the past fiscal year, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$39,590 in fiscal year 2005 to \$74,431 in fiscal year 2006.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Interstate 35 Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Interstate 35 Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Interstate 35 Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

Figure A-1
Interstate 35 Community School District Annual Financial Report

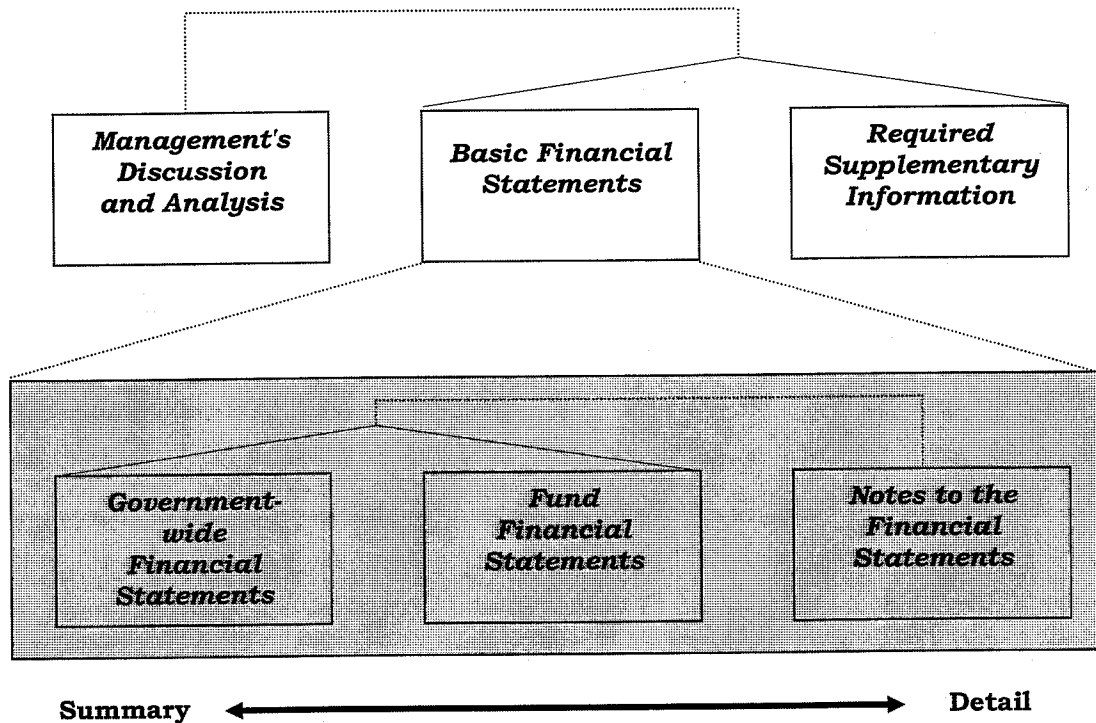


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2 Major Features of the Government-wide and Fund Financial Statements			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-3

	Condensed Statement of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change	
	2006	2005	2006	2005	2006	2005	2005-06	
Current and other assets	\$ 6,076,779	5,335,949	60,716	23,406	6,137,495	5,359,355	14.52%	
Capital assets	9,797,647	9,880,795	165,360	186,075	9,963,007	10,066,870	-1.03%	
Total assets	15,874,426	15,216,744	226,076	209,481	16,100,502	15,426,225	4.37%	
Long-term obligations	4,794,596	5,118,861	0	0	4,794,596	5,118,861	-6.33%	
Other liabilities	5,224,074	4,968,887	13,016	12,889	5,237,090	4,981,776	5.12%	
Total liabilities	10,018,670	10,087,748	13,016	12,889	10,031,686	10,100,637	-0.68%	
Net assets:								
Invested in capital assets, net of related debt	5,155,105	4,871,210	165,360	186,075	5,320,465	5,057,285	5.20%	
Restricted	628,210	546,334	0	0	628,210	546,334	14.99%	
Unrestricted	72,441	(288,548)	47,700	10,517	120,141	(278,031)	143.21%	
Total net assets	\$ 5,855,756	5,128,996	213,060	196,592	6,068,816	5,325,588	13.96%	

The District's combined net assets increased by 13.96%, or \$743,228, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$81,876, or 14.99% over the prior year. The increase was primarily a result of the District's increase in the Special Revenue, Management Fund, Physical Plant and Equipment Fund, and Capital Project Fund.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$398,173, or 143.21%. This increase in unrestricted net assets was primarily a result of the District increase in the General Fund balance and Special Revenue, Physical Plant and Equipment Levy Fund.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 659,200	604,348	268,693	222,344	927,893	826,692	12.24%
Operating grants and contributions and restricted interest	777,316	733,598	121,269	110,138	898,585	843,736	6.50%
General revenues:							
Property tax	2,649,957	2,603,180	0	0	2,649,957	2,603,180	1.80%
Local option sales and services tax	383,272	358,454	0	0	383,272	358,454	6.92%
Unrestricted state grants	3,107,470	2,973,440	0	0	3,107,470	2,973,440	4.51%
Other	85,958	42,222	668	341	86,626	42,563	103.52%
Total revenues	7,663,173	7,315,242	390,630	332,823	8,053,803	7,648,065	5.31%
Program expenses:							
Governmental activities:							
Instructional	4,218,658	4,157,927	0	0	4,218,658	4,157,927	1.46%
Support services	2,062,392	2,047,314	0	0	2,062,392	2,047,314	0.74%
Non-instructional programs	0	0	374,162	369,685	374,162	369,685	1.21%
Other expenditures	655,363	671,862	0	0	655,363	671,862	-2.46%
Total expenses	6,936,413	6,877,103	374,162	369,685	7,310,575	7,246,788	0.88%
Changes in net assets	726,760	438,139	16,468	(36,862)	743,228	401,277	85.22%
Beginning net assets	5,128,996	4,690,857	196,592	233,454	5,325,588	4,924,311	8.15%
Ending net assets	\$ 5,855,756	5,128,996	213,060	196,592	6,068,816	5,325,588	13.96%

Property tax, local option sales and services tax and unrestricted state grants account for 76% of the District's total revenues. The District's expenses primarily relate to instruction and support services, which account for 86% of the total expenses.

Changes in revenues will be as a result of changes in student participation, whether in the regular, special or extracurricular programs. The most significant change in revenues was in the Local Option Sales and Services Tax, unrestricted state grants, and increased interest rates resulted in additional unrestricted investment earnings. Fluctuations in basic enrollment will significantly impact the state revenues, as well as property tax revenues, keeping in mind that neither source of funding will ever be fully realized with current law and funding structure as set by the legislature.

The most significant fluctuation in expenditure levels was caused by increased salary and benefit obligations, in large part resulting from collective bargaining agreements.

Governmental Activities

Revenues for governmental activities were \$7,663,173 and expenses were \$6,936,413.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services and other expenses.

Figure A-5
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 4,218,658	3,016,019
Support services	2,062,392	2,062,222
Other expenditures	655,363	421,656
Totals	<u>\$ 6,936,413</u>	<u>5,499,897</u>

- The cost financed by users of the District's programs was \$659,200.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$777,316.
- The net cost of governmental activities was financed with \$2,649,957 in property tax, \$383,272 in local option sales and services tax, \$3,107,470 in unrestricted state grants, \$85,958 in interest income.

Business-Type Activities

Revenues of the District's business-type activities were \$390,630 and expenses were \$374,162. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

INDIVIDUAL FUND ANALYSIS

As previously noted, the Interstate 35 Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$881,425, above last year's ending fund balances of a \$397,457.

Governmental Fund Highlights

- The District's improved General Fund financial position from a deficit \$191,030 to a positive balance of \$125,716 is the product of many factors:
 - Increase in state grants and increase in tax levy during the year resulted in an increase in revenues.
 - The decrease in special education cost, as well as a decrease in expenditures for operation and maintenance helped to offset the other increases in expenditures which resulted in only a slight increase in expenditures.
 - The increase in revenues was more than the increase in expenditures resulting in a net increase of \$316,746.

Proprietary Fund Highlights

The School Nutrition Fund net assets increased from \$196,592 at June 30, 2005 to \$213,060 at June 30, 2006, representing an increase of 8.38%.

BUDGETARY HIGHLIGHTS

The District's revenues were \$414,783 more than budgeted revenues, a variance of 5.43%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services functional area.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had invested \$9,963,007, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) More detailed information about capital assets is available in Note 4 to the financial statements. Depreciation expense for the year was \$364,205.

The original cost of the District's capital assets was \$15.26 million. Governmental funds account for \$14.96 million with the remainder of \$0.3 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the building category. The District's buildings totaled \$8,901,800 at June 30, 2006, compared to \$9,092,575 reported at June 30, 2005. This decrease resulted from current depreciation expense.

Figure A-6
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 401,200	401,200	0	0	401,200	401,200	0.00%
Buildings	8,901,800	9,092,575	0	0	8,901,800	9,092,575	-2.14%
Land improvements	233,761	253,743	0	0	233,761	253,743	-8.55%
Machinery and equipment	260,886	133,277	165,360	186,075	426,246	319,352	25.08%
Total	\$ 9,797,647	9,880,795	165,360	186,075	9,963,007	10,066,870	-1.04%

Long-Term Debt

At June 30, 2006, the District had \$4,794,596 in general obligation and other long-term debt outstanding. This represents a decrease of 6.3% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 5 to the financial statements.

The District had total outstanding General Obligation Bonds payable of \$4,705,000 at June 30, 2006.

The District had total outstanding Early Retirement payable from the Special Revenue – Management Fund of \$81,005 at June 30, 2006.

The District had total outstanding Compensated Absences payable from the General Fund of \$8,591 at June 30, 2006.

Figure A-7
Outstanding Long-Term Obligations

	Total School District		Total Change
	2006	2005	
General Obligation Bonds	\$ 4,705,000	5,070,000	-7.2%
Early Retirement	81,005	41,292	96.2%
Compensated Absences	8,591	7,569	13.5%
	<u>\$ 4,794,596</u>	<u>5,118,861</u>	<u>-6.3%</u>

ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- Low allowable growth over several years is negatively impacting the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Lisa Brown, Board Secretary, Interstate 35 Community School District, P.O. Box 79, Truro, Iowa, 50257.

BASIC FINANCIAL STATEMENTS

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and pooled investments:			
ISCAP(Note 3)	\$ 1,728,933	0	1,728,933
Other	1,317,355	57,071	1,374,426
Receivables:			
Property tax:			
Delinquent	44,924	0	44,924
Succeeding year	2,783,010	0	2,783,010
Accounts	4,230	0	4,230
Accrued ISCAP interest(Note 3)	13,172	0	13,172
Due from other governments	185,155	0	185,155
Inventories	0	3,645	3,645
Capital assets, net of accumulated depreciation(Note 4)	9,797,647	165,360	9,963,007
TOTAL ASSETS	15,874,426	226,076	16,100,502
LIABILITIES			
Accounts payable	101,285	0	101,285
Salaries and benefits payable	559,099	9,610	568,709
ISCAP warrants payable(Note 3)	1,726,000	0	1,726,000
ISCAP interest payable(Note 3)	12,336	0	12,336
ISCAP unamortized premium	12,274	0	12,274
Interest payable	28,720	0	28,720
Deferred revenue:			
Succeeding year property tax	2,783,010	0	2,783,010
Other	1,350	3,406	4,756
Long-term liabilities(Note 5):			
Portion due within one year:			
General obligation bonds payable	375,000	0	375,000
Early retirement payable	31,108	0	31,108
Compensated absences payable	8,591	0	8,591
Portion due after one year:			
General obligation bonds payable	4,330,000	0	4,330,000
Early retirement payable	49,897	0	49,897
TOTAL LIABILITIES	10,018,670	13,016	10,031,686
NET ASSETS			
Investment in capital assets, net of related debt	5,155,105	165,360	5,320,465
Restricted for:			
Talented and gifted	5,067	0	5,067
Capital projects	363,808	0	363,808
Management levy	167,084	0	167,084
Other special revenue purposes	92,251	0	92,251
Unrestricted	72,441	47,700	120,141
TOTAL NET ASSETS	\$ 5,855,756	213,060	6,068,816

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 2,646,809	275,627	504,033	(1,867,149)	0	(1,867,149)
Special instruction	880,407	7,976	39,576	(832,855)	0	(832,855)
Other instruction	691,442	375,427	0	(316,015)	0	(316,015)
	4,218,658	659,030	543,609	(3,016,019)	0	(3,016,019)
Support services:						
Student services	170,046	0	0	(170,046)	0	(170,046)
Instructional staff services	31,713	0	0	(31,713)	0	(31,713)
Administration services	869,421	0	0	(869,421)	0	(869,421)
Operation and maintenance of plant services	574,143	0	0	(574,143)	0	(574,143)
Transportation services	417,069	170	0	(416,899)	0	(416,899)
	2,062,392	170	0	(2,062,222)	0	(2,062,222)
Other expenditures:						
Facilities acquisitions	1,206	0	0	(1,206)	0	(1,206)
Long-term debt interest	178,847	0	0	(178,847)	0	(178,847)
AEA flowthrough	233,707	0	233,707	0	0	0
Depreciation(unallocated)*	241,603	0	0	(241,603)	0	(241,603)
	655,363	0	233,707	(421,656)	0	(421,656)
Total governmental activities	6,936,413	659,200	777,316	(5,499,897)	0	(5,499,897)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	374,162	268,693	121,269	0	15,800	15,800
Total business-type activities	374,162	268,693	121,269	0	15,800	15,800
Total	\$ 7,310,575	927,893	898,585	(5,499,897)	15,800	(5,484,097)
General Revenues:						
Property tax for:						
General purposes				\$ 2,057,642	0	2,057,642
Capital outlay				48,324	0	48,324
Debt service				543,991	0	543,991
Local option sales and services tax				383,272	0	383,272
Unrestricted state grants				3,107,470	0	3,107,470
Unrestricted investment earnings				85,958	668	86,626
Total general revenues				6,226,657	668	6,227,325
Changes in net assets				726,760	16,468	743,228
Net assets beginning of year				5,128,996	196,592	5,325,588
Net assets end of year				\$ 5,855,756	213,060	6,068,816

* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
ASSETS				
Cash and pooled investments				
ISCAP(Note 3)	\$ 1,728,933	0	0	1,728,933
Other	729,540	210,507	377,308	1,317,355
Receivables:				
Property tax				
Delinquent	32,346	0	12,578	44,924
Succeeding year	2,044,001	0	739,009	2,783,010
Accounts	2,215	0	2,015	4,230
Accrued ISCAP interest(Note 3)	13,172	0	0	13,172
Due from other governments	31,081	154,074	0	185,155
TOTAL ASSETS	\$ 4,581,288	364,581	1,130,910	6,076,779
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 100,512	773	0	101,285
Salaries and benefits payable	559,099	0	0	559,099
ISCAP warrants payable(Note 3)	1,726,000	0	0	1,726,000
ISCAP interest payable(Note 3)	12,336	0	0	12,336
ISCAP unamortized premium	12,274	0	0	12,274
Deferred revenue:				
Succeeding year property tax	2,044,001	0	739,009	2,783,010
Other	1,350	0	0	1,350
Total liabilities	4,455,572	773	739,009	5,195,354
Fund balances:				
Reserved for:				
Debt service	0	0	91,178	91,178
Talented and gifted	5,067	0	0	5,067
Unreserved	120,649	363,808	300,723	785,180
Total fund balances	125,716	363,808	391,901	881,425
TOTAL LIABILITIES AND FUND BALANCES	\$ 4,581,288	364,581	1,130,910	6,076,779

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances of governmental funds (page 15)	\$ 881,425
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	9,797,647
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(28,720)
Long-term liabilities, including general obligation bonds, early retirement and compensated absences, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(4,794,596)</u>
Net assets of governmental activites (page 13)	<u><u>\$ 5,855,756</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2006

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
REVENUES:				
Local sources:				
Local tax	\$ 1,908,036	383,272	741,921	3,033,229
Tuition	283,603	0	0	283,603
Other	218,808	2,871	237,072	458,751
Intermediate sources	3,663	0	0	3,663
State sources	3,709,555	0	2,040	3,711,595
Federal sources	172,332	0	0	172,332
Total revenues	6,295,997	386,143	981,033	7,663,173
EXPENDITURES:				
Current:				
Instruction:				
Regular instruction	2,580,949	0	12,418	2,593,367
Special instruction	879,648	0	0	879,648
Other instruction	452,766	0	224,798	677,564
	3,913,363	0	237,216	4,150,579
Support services:				
Student services	170,046	0	0	170,046
Instructional staff services	48,296	0	0	48,296
Administration services	751,678	0	120,446	872,124
Operation and maintenance of plant services	414,354	244,218	0	658,572
Transportation services	447,807	0	0	447,807
	1,832,181	244,218	120,446	2,196,845
Other expenditures:				
Facilities acquisitions	0	49,380	3,172	52,552
Long-term debt:				
Principal	0	0	365,000	365,000
Interest	0	0	180,522	180,522
AEA flowthrough	233,707	0	0	233,707
	233,707	49,380	548,694	831,781
Total expenditures	5,979,251	293,598	906,356	7,179,205
Net change in fund balance	316,746	92,545	74,677	483,968
Fund balance beginning of year	(191,030)	271,263	317,224	397,457
Fund balance end of year	\$ 125,716	363,808	391,901	881,425

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2006

Net change in fund balances - total governmental funds (page 17) \$ 483,968

**Amounts reported for governmental activities in the
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Depreciation expense exceeded capital outlay expenditures in the current year are as follows:

Expenditures for capital assets	\$ 256,409	
Depreciation expense	<u>(339,557)</u>	(83,148)

Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets.	365,000
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.	1,675
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Early retirement	\$ (39,713)
Compensated absences	<u>(1,022)</u> (40,735)

Changes in net assets of governmental activities (page 14)	<u>\$ 726,760</u>
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUND
JUNE 30, 2006

	<u>School Nutrition</u>
ASSETS	
Cash and pooled investments	\$ 57,071
Inventories	3,645
Capital assets, net of accumulated depreciation(Note 4)	165,360
TOTAL ASSETS	<u>226,076</u>
LIABILITIES	
Salaries and benefits payable	9,610
Deferred revenues:	
Other	3,406
TOTAL LIABILITIES	<u>13,016</u>
NET ASSETS	
Investment in capital assets	165,360
Unrestricted	47,700
TOTAL NET ASSETS	<u>\$ 213,060</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
OPERATING REVENUE:	
Local sources:	
Charges for services	\$ 268,693
TOTAL OPERATING REVENUES	<u>268,693</u>
OPERATING EXPENSES:	
Non-instructional programs:	
Food service operations:	
Salaries	126,253
Benefits	54,646
Services	427
Supplies	168,188
Depreciation	24,648
TOTAL OPERATING EXPENSES	<u>374,162</u>
OPERATING LOSS	<u>(105,469)</u>
NON-OPERATING REVENUES:	
State sources	4,808
Federal sources	116,461
Interest income	668
TOTAL NON-OPERATING REVENUES	<u>121,937</u>
Change in net assets	16,468
Net assets beginning of year	<u>196,592</u>
Net assets end of year	<u><u>\$ 213,060</u></u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2006

	<u>School Nutrition</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	\$ 268,457
Cash payments to employees for services	(180,535)
Cash payments to suppliers for goods or services	(153,699)
Net cash used in operating activities	<u>(65,777)</u>
Cash flows from non-capital financing activities:	
State grants received	4,808
Federal grants received	100,840
Net cash provided by non-capital financing activities	<u>105,648</u>
Cash flows from capital financing activities:	
Purchase of assets	(3,934)
Net cash used in capital financing activities	<u>(3,934)</u>
Cash flows from investing activities:	
Interest on investments	668
Net cash provided by investing activities	<u>668</u>
Net increase in cash and cash equivalents	36,605
Cash and cash equivalents at beginning of year	<u>20,466</u>
Cash and cash equivalents at end of year	<u>\$ 57,071</u>
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	\$ (105,469)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Commodities consumed	15,621
Depreciation	24,648
Increase in inventories	(705)
Increase in salaries and benefits payable	364
Decrease in deferred revenue	(236)
Net cash used in operating activities	<u>\$ (65,777)</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:	
Current assets:	
Cash and pooled investments	<u>\$ 57,071</u>

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$15,621.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Interstate 35 Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education and regular pre-kindergarten. The geographic area served includes the City of Truro, New Virginia and St. Charles, Iowa, and the predominate agricultural territory in Madison, Clarke and Warren Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Interstate 35 Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Interstate 35 Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Madison, Clarke and Warren Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net asset consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District reports the following major proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund. The School Nutrition Fund is used to account for the food service operations of the District.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating

revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Balances

The following accounting policies are followed in preparing the balance sheet:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	500
Land improvements	500
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Property, machinery and equipment are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Salaries and Benefits Payable - Payroll and related expenditures for contracts corresponding to the current school year, which is payable in July and August, have been accrued as liabilities.

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide financial statements. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2006. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, expenditures in the support services area exceeded the amount budgeted.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2006, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	Amortized Cost
Diversified Portfolio	\$ 397,056

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were rated Aaa by Moody's Investors Service.

(3) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa Schools Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings, and amounts available for withdrawal for each outstanding series of warrants. These accounts are reflected as restricted assets on the balance sheet. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP as of June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2005-06A	1/28/05	1/27/06	\$ 2,253	0	0	0
2005-06B	1/26/06	1/26/07	633,202	12,832	631,000	12,058
2006-07A	6/28/06	6/28/07	1,093,478	340	1,095,000	278
Total			\$ 1,728,933	13,172	1,726,000	12,336

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts, and must make minimum warrant repayments on the 25th of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. No ISCAP advance activity in the General Fund for the year ended June 30, 2006 was noted.

The warrants bear an interest rate and the available proceeds of the warrants are invested at an interest rate as shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%
2005-06A	3.500%	3.232%
2005-06B	4.500%	4.772%

(4) Capital Assets

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 401,200	0	0	401,200
Total capital assets not being depreciated	401,200	0	0	401,200
Capital assets being depreciated:				
Buildings	12,062,243	51,346	0	12,113,589
Land improvements	519,874	0	0	519,874
Machinery and equipment	1,749,594	205,063	34,694	1,919,963
Total capital assets being depreciated	14,331,711	256,409	34,694	14,553,426
Less accumulated depreciation for:				
Buildings	2,969,668	242,121	0	3,211,789
Land improvements	266,131	19,982	0	286,113
Machinery and equipment	1,616,317	77,454	34,694	1,659,077
Total accumulated depreciation	4,852,116	339,557	34,694	5,156,979
Total capital assets being depreciated, net	9,479,595	(83,148)	0	9,396,447
Governmental activities capital assets, net	\$ 9,880,795	(83,148)	0	9,797,647
Business-type activities:				
Machinery and equipment	\$ 306,076	3,933	0	310,009
Less accumulated depreciation	120,001	24,648	0	144,649
Business-type activities capital assets, net	\$ 186,075	(20,715)	0	165,360

Depreciation expense was charged by the District as follows:

Governmental activities:

Instruction:

Regular	\$	16,629
Special		759
Other		15,740

Support services:

Instructional staff		917
Administration		1,162
Operation and maintenance of plant		2,807
Transportation		39,440
		<u>77,454</u>

Unallocated depreciation		<u>262,103</u>
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Total governmental activities depreciation expense	\$	<u>339,557</u>
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Business-type activities:

Food services	\$	24,648
Total business-type activities depreciation expense	\$	<u>24,648</u>

(5) Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 5,070,000	0	365,000	4,705,000	375,000
Early Retirement	41,292	58,131	18,418	81,005	31,108
Compensated Absences	7,569	2,304	1,282	8,591	8,591
	<u>\$ 5,118,861</u>	<u>60,435</u>	<u>384,700</u>	<u>4,794,596</u>	<u>414,699</u>

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Bond issue of December 1, 2002			
	Interest Rates	Principal	Interest	Total
2007	3.00 %	\$ 375,000	169,548	544,548
2008	3.00-3.25	385,000	158,223	543,223
2009	3.20-3.25	400,000	145,785	545,785
2010	3.20-3.45	410,000	132,935	542,935
2011	3.45-3.65	425,000	118,867	543,867
2012	3.65-3.70	440,000	103,474	543,474
2013	3.70-3.85	460,000	87,062	547,062
2014	3.85-4.00	475,000	69,329	544,329
2015	4.00-4.10	495,000	50,305	545,305
2016	4.10-4.20	515,000	30,030	545,030
2017	4.20-4.30	325,000	9,575	334,575
Total		<u>\$ 4,705,000</u>	<u>1,075,133</u>	<u>5,780,133</u>

Early Retirement

The District offers a voluntary early retirement plan to its certified and non-certified employees. Eligible employees must be at least age fifty-five and employees must have completed fifteen years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement cash incentive for each eligible employee is equal to 1% of the previous year contract times each year of employment. The District also pays \$25 for each unused sick day. The retiree also receives a health insurance incentive for a period of up to three years, but before the retiree reaches age sixty-five. Early retirement benefits paid during the year ended June 30, 2006, totaled \$18,418. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

(6) Advance Refunding

On April 25, 1996, the District issued refunding bonds in the amount of \$1,950,000 of outstanding general obligation bonds. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested by the U.S. Government Obligations which have been certified to be sufficient to pay all principal and interest on the new advance refunding bonds added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is unable to pay the refunded bonds. At June 30, 2006, \$225,000 of such bonds is outstanding. Repayments of principal and interest for the year was \$225,000 and \$28,125 respectively.

On December 1, 2002, the District issued refunding bonds in the amount of \$5,925,000 to advance refund \$5,245,000 of outstanding general obligation bonds. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested by the U.S. Government Obligations which have been certified to be sufficient to pay all principal and interest on the new advance refunding bonds added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is unable to pay the refunded bonds. At June 30, 2006, \$4,575,000 of such bonds is outstanding. Repayments of principal and interest for the year was \$205,000 and \$270,310 respectively.

(7) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The

District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$199,523, \$195,267 and \$179,072 respectively, equal to the required contributions for each year.

(8) Risk Management

The District is a member in the Iowa School Employees Benefits Association (ISEBA), and Iowa Code Chapter 28E organization. ISEBA is a local government risk-sharing pool whose members include various schools throughout the State of Iowa. The Association was formed July 1999 for the purpose of managing and funding employee benefits. The Association provides coverage and protection in the following categories: medical, dental, vision and prescription drugs.

The District's contributions, which include deficit recovery assessments, to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to ISEBA for the year ended June 30, 2006 were \$706,234.

Members agree to continue membership in the pool for a period of not less than one full year. After such period, a member who has given 30 days prior written notice may withdraw.

The District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Area Education Agency

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$233,707 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(10) Deficit Fund Balances

The Special Revenue - Physical Plant and Equipment Fund had a deficit undesignated fund balance of \$39,617 at June 30, 2006.

(11) Budget Overexpenditure

Per the Code of Iowa, expenditures may not legally exceed budgeted appropriations at the functional area level. During the year ended June 30, 2006, expenditures in the support services functional area exceeded the amount budgeted.

REQUIRED SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND
CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS
AND PROPRIETARY FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2006

	Governmental	Proprietary		Budgeted Amounts		Final to
	Funds	Fund	Total			Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 3,775,583	269,361	4,044,944	3,705,772	3,705,772	339,172
Intermediate sources	3,663	0	3,663	4,650	4,650	(987)
State sources	3,711,595	4,808	3,716,403	3,713,598	3,713,598	2,805
Federal sources	172,332	116,461	288,793	215,000	215,000	73,793
Total revenues	7,663,173	390,630	8,053,803	7,639,020	7,639,020	414,783
Expenditures:						
Instruction	4,150,579	0	4,150,579	5,296,531	5,296,531	1,145,952
Support services	2,196,845	0	2,196,845	2,001,026	2,001,026	(195,819)
Non-instructional programs	0	374,162	374,162	458,161	458,161	83,999
Other expenditures	831,781	0	831,781	928,977	928,977	97,196
Total expenditures	7,179,205	374,162	7,553,367	8,684,695	8,684,695	1,131,328
Excess(deficiency) of revenues over(under) expenditures	483,968	16,468	500,436	(1,045,675)	(1,045,675)	1,546,111
Other financing sources, net	0	0	0	20,500	20,500	(20,500)
Excess(deficiency) of revenues and other financing sources over(under) expenditures	483,968	16,468	500,436	(1,025,175)	(1,025,175)	1,525,611
Balance beginning of year	397,457	196,592	594,049	1,377,740	1,377,740	(783,691)
Balance end of year	\$ 881,425	213,060	1,094,485	352,565	352,565	741,920

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except private-purpose trust and agency funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2006, expenditures in the support services functional area exceeded the amount budgeted.

OTHER SUPPLEMENTARY INFORMATION

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006

	Special Revenue Funds				Debt Service	Total Other Nonmajor Governmental Funds
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds		
ASSETS						
Cash and pooled investments	\$ 245,552	90,236	(40,436)	295,352	81,956	377,308
Receivables:						
Property tax:						
Delinquent	2,537	0	819	3,356	9,222	12,578
Succeeding year property tax	143,460	0	50,751	194,211	544,798	739,009
Accounts	0	2,015	0	2,015	0	2,015
TOTAL ASSETS	\$ 391,549	92,251	11,134	494,934	635,976	1,130,910
LIABILITIES AND FUND BALANCES						
Liabilities:						
Deferred revenue:						
Succeeding year property tax	143,460	0	50,751	194,211	544,798	739,009
	143,460	0	50,751	194,211	544,798	739,009
Fund balances:						
Reserved for Debt Service	0	0	0	0	91,178	91,178
Unreserved, undesignated	248,089	92,251	(39,617)	300,723	0	300,723
	248,089	92,251	(39,617)	300,723	91,178	391,901
TOTAL LIABILITIES AND FUND BALANCES	\$ 391,549	92,251	11,134	494,934	635,976	1,130,910

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2006

	Special Revenue Funds				Total	
	Manage- ment	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 149,606	0	48,324	197,930	543,991	741,921
Other	9,628	225,978	0	235,606	1,466	237,072
State sources	119	0	1,488	1,607	433	2,040
TOTAL REVENUES	159,353	225,978	49,812	435,143	545,890	981,033
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	12,418	0	0	12,418	0	12,418
Other instruction	0	224,798	0	224,798	0	224,798
Support services:						
Administration	120,446	0		120,446	0	120,446
Other expenditures:						
Facilities acquisitions	0	0	3,172	3,172	0	3,172
Long-term debt:						
Principal	0	0	0	0	365,000	365,000
Interest	0	0	0	0	180,522	180,522
TOTAL EXPENDITURES	132,864	224,798	3,172	360,834	545,522	906,356
EXCESS OF REVENUES OVER EXPENDITURES	26,489	1,180	46,640	74,309	368	74,677
FUND BALANCE BEGINNING OF YEAR	221,600	91,071	(86,257)	226,414	90,810	317,224
FUND BALANCE END OF YEAR	\$ 248,089	92,251	(39,617)	300,723	91,178	391,901

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
AED Grant	\$ (896)	1,204	0	308
Interest	0	2,710	47	2,663
Candy	862	375	507	730
HS Book Club	550	3,001	3,323	228
Senior Breakfast	165	100	1	264
Class of 2005	190	0	190	0
Class of 2006	642	207	670	179
Class of 2007	2,394	1,397	2,429	1,362
Class of 2008	300	2,074	130	2,244
Class of 2009	100	400	215	285
HS General Athletics	2,172	5,733	4,704	3,201
Middle School Classes	9,007	12,845	14,859	6,993
Elementary Classes	22,159	19,466	24,369	17,256
EL/MS Fundraising	2,053	8,133	5,852	4,334
JH Athletics	0	6,288	6,025	263
Uniform Fund	1,728	610	0	2,338
Athletic Complex	1,499	1,702	1,702	1,499
Speech	234	1,767	1,101	900
HS Vocal	0	2,126	1,427	699
7th and 8th Vocal	268	216	0	484
Elem Vocal	87	74	0	161
HS Band	0	4,603	2,496	2,107
Middle School Band	1,365	4,540	4,531	1,374
Band Entry Fees	599	0	398	201
Vocal Entry Fees	0	0	(435)	435
Cross Country	558	1,680	1,873	365
Boys Basketball	1,669	4,380	5,750	299
Football	6,635	13,079	21,735	(2,021)
Baseball	562	6,905	7,643	(176)
Baseball Fundraising	0	2,537	1,580	957
Boys Track	179	2,677	1,303	1,553
Wrestling	1,222	11,275	13,174	(677)
HS Cheerleaders	3,714	11,300	14,119	895
MS Cheerleaders	67	0	67	0
Dance Team	2,609	5,646	5,723	2,532
Girls Basketball	652	6,828	5,068	2,412
Girls Basketball Fundraising	0	592	0	592
Volleyball	1,918	8,220	9,174	964
Softball	70	5,126	4,784	412
Girls Track	2,759	7,142	6,777	3,124
Booster Club	7,214	33,121	29,057	11,278
Honor Society	1,195	715	1,134	776
HS Student Council	1,415	4,548	3,285	2,678
JH Student Council	5,528	9,907	5,777	9,658
FFA	3,475	6,989	8,208	2,256
FCCLA	0	521	150	371
Art Club	1,116	0	854	262
Beep Club	3,036	1,858	2,663	2,231
Unreserved-Fund Balance Preschool	0	509	326	183
TAG Activity Fund Balance	0	852	33	819
	\$ 91,071	225,978	224,798	92,251

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION
 ALL GOVERNMENTAL FUND TYPES
 FOR THE LAST FOUR YEARS

		Modified Accrual Basis			
		Years Ended June 30,			
		2006	2005	2004	2003
Revenues:					
Local sources:					
Local tax	\$	3,033,229	2,961,634	2,503,938	2,338,840
Tuition		283,603	230,110	188,971	150,598
Other		458,751	415,118	345,482	382,539
Intermediate sources		3,663	180	860	1,285
State sources		3,711,595	3,534,845	3,343,852	3,307,612
Federal sources		172,332	172,013	125,386	172,027
Total	\$	7,663,173	7,313,900	6,508,489	6,352,901
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$	2,593,367	2,566,745	2,453,170	2,440,909
Special instruction		879,648	1,054,796	843,303	816,042
Other instruction		677,564	552,769	539,517	539,466
Support services:					
Student services		170,046	177,068	174,280	167,047
Instructional staff services		48,296	37,662	73,135	30,381
Administration services		872,124	786,083	670,130	648,010
Operation and maintenance of plant services		658,572	676,195	553,359	651,427
Transportation services		447,807	484,531	458,525	396,955
Other expenditures:					
Facilities acquisitions		52,552	80,903	510	151,600
Long-term debt:					
Principal		365,000	355,000	350,000	235,000
Interest and fiscal charges		180,522	189,391	196,648	236,558
AEA flow-through		233,707	222,803	216,931	224,858
Total	\$	7,179,205	7,183,946	6,529,508	6,538,253

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

NOLTE, CORNMAN & JOHNSON P.C.
Certified Public Accountants
(a professional corporation)
117 West 3rd Street North, Newton, Iowa 50208-3040
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and
on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Board of Education of the
Interstate 35 Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Interstate 35 Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated August 15, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Interstate 35 Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Interstate 35 Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Members American Institute & Iowa Society of Certified Public Accountants

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Interstate 35 Community School District and other parties to whom Interstate 35 Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Interstate 35 Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

NOLTE, CORNMAN & JOHNSON, P.C.

August 15, 2006

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-06 Safe and Drug Free Grant - The final report for Safe and Drug Free was not filed timely. As a result, subsequent funding was not received.

Recommendation - The district should file the final report by the due date. The district should monitor timelines for grants to ensure that final reports are filed timely and therefore grant revenues are received for the programs.

Response - We will comply.

Conclusion - Response accepted.

- I-C-06 Miscoding of Accounts - We noted during our audit that accounts for some State and Federal grants did not conform to the Uniform Financial Accounting Chart of Accounts.

Recommendation - The District should utilize the Iowa Department of Education's Uniform Financial Accounting for Iowa LEAs and AEAs Manual which provides project codes for the specific State and Federal grants. With the use of these codes, the District would be able to prepare final reports with greater accuracy.

Response - We will review the Uniform Financial Accounting Manual and utilize the software to code the State and Federal grants to the appropriate accounts.

Conclusion - Response accepted.

- I-D-06 Timely Deposits - We noted during our audit that deposits for the Daycare were prepared but may not be taken to the bank for deposit until several days later.

Recommendation - All receipts should be deposited when received. The district should review procedures to ensure that the deposits are made timely.

Response - The district has had a change in staff for this position and part of the training consisted in depositing receipts daily.

Conclusion - Response accepted.

I-E-06 Student Activity Fund - We noted during our audit that the Student Activity fund included an interest account.

Recommendation - Interest should be allocated out to various accounts.

Response - We agree with your recommendation and will correct immediately.

Conclusion - Response accepted.

INTERSTATE 35 COMMUNITY SCHOOL DISTRICT
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the amount budgeted in the support services area.

Recommendation - The budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before expenses were allowed to exceed the budget

Response - We will amend the budget if necessary in the future.

Conclusion - Response accepted

- II-B-06 Questionable Disbursements - We noted instances during our audit that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979. One of the disbursements from the Student Activity Fund was flowers for a funeral. We also noted that the District overpaid teacher quality by \$1,059 in salary and benefits. The overpayment did not appear to be authorized by the district.

Recommendation - The District should collect the unauthorized overpayment back from the employees. In addition, the District should review procedures in place for identifying and correcting payroll mistakes. The District should also review its procedures for identifying the public purpose on all transactions.

Response - We have requested repayment from the teachers that are no longer with the District. The other teachers are repaying the amount that was overpaid as a deduction from their payroll.

Conclusion - Response accepted

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - Business transactions between the District and District officials and employees are detailed as follows:

Name, Title and Business Connection	Transaction Description	Amount
Connie Kephart, Bus Driver Spouse owns Kephart Construction	Purchased Services	\$24,829
Ron Kirkpatrick, Custodian Son owns Amazing Landscapes and Water Gardens	Purchased Services	\$1,723

Name, Title and Business Connection	Transaction Description	Amount
Tim and Jane Busby, Teachers own Busby Auction	Supplies	\$100
Deann Strange, Secretary Spouse owns D and L Electric and Auto Sales	Purchased Services	\$3,742

In accordance with Attorney General's opinion dated November 9, 1976, the above transactions with the family members of the employees do not appear to represent a conflict of interest.

In accordance with Attorney General's Opinion date July 2, 1990, the above transaction with Tim and Jane Busby does not appear to represent a conflict of interest.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board
- II-G-06 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.
- II-J-06 Financial Condition - The District has a deficit undesignated fund balance of \$39,617 in the Special Revenue, Physical Plant and Equipment Levy Fund. The District also had several deficit account balances in the Special Revenue, Student Activity Fund.

Recommendation - The District should continue to monitor these funds and investigate alternatives to eliminate the deficits.

Response - We will monitor these funds and investigate any available options to eliminate these deficits.

Conclusion - Response accepted.